

Summary of text given before the Senate Education Committee at Essex County College, Newark, New Jersey, on Tuesday, September 18, 1979.

This text was prepared as a presentation to the Committee's Public Hearings on "The Impact Of Spending Limitations On Local School Districts".

Ladies and Gentlemen of the State Senate Education Committee, the New Jersey Education Reform Project of the Greater Newark Urban Coalition, has been engaged in School Finance Reform in New Jersey for the past six years. More recently the Project has been actively monitoring the impact of the Public Education Act of 1975, with particular emphasis on how the State Aid Formula impacts on the State Urban Centers.

In recognition of problems that the "Caps" were causing districts throughout the State, the Project in May of 1978 prepared a research document, "A Discussion Of The Expenditure Cap Provision Of The New Jersey Public School Education Act of 1975.

First, however, let me respond to the concerns of "declining enrollment", which seem to be the major focus of many of the districts who spoke earlier this morning.

Because the cap of one year's budget is based on a percentage of the prior year's budget, a reduction in enrollment can lead to substantial increases in per pupil expenditures, and in per pupil expenditure disparities. For example, because Fair Lawn lost 444 pupils between 1976/77 and 1977/78, a projected increase in the NCEB of \$108 per pupil turned into an actual increase in the CEB of \$350 per pupil. In Deal, the same situation led to an increase of \$692 per pupil. As a result, the difference between one of the lowest and one of the highest spending districts, Lindenwold and Deal, was \$2,725 per pupil in 1976/77 and \$3,249 per pupil in 1977/78. More importantly, they demonstrate that the formula is incapable of ensuring progress.

I would also like to speak briefly about the problem of "catch-up", to give you a vivid example of how disequalizing the current formula is.

In 1976/77, Paterson had a current expense budget of \$1,188 per pupil and one of

the lowest achievement records in the state. It raised its 1977/78 NCES to the full extent allowed by the law which was \$163 per pupil. At the same time Princeton, a district which enjoys one of the highest achievement levels in the state, and in 1976/77 was spending \$2,359 per pupil, about twice the Paterson level, was allowed a cap of \$108 per pupil. In other words, the cap formula allowed Paterson to catch up to Princeton by the amount of \$55 per pupil per year. At that rate it would take about 21 years to catch-up. However, the formula is designed so that the "catch-up" amount goes down every year. But more important, if Paterson ever got to the state average NCES, it would not be permitted any larger increase than Princeton, regardless of how much more Princeton was spending. The result is that the cap formula insures that Paterson could never catch Princeton.

The JCPS study discounted the catch-up problem, by pointing out that not all districts used the full amount of their cap, and a district could always apply for a cap waiver if necessary to achieve a "thorough and efficient system". Although this is true, in this particular example, Paterson did fully utilize its cap, but Princeton applied for a waiver. It requested an additional \$85 per pupil, and was allowed \$35 per pupil, thus reducing the amount of Paterson's "catch-up" to \$20 per pupil. At the rate of \$20 per year, it would take Paterson over 50 years to catch-up. However, as we have seen, it could never catch-up. It is more logical to change the formula than to rely on district failure to exercise cap rights under the formula; it is also a more preferable way to achieve equity in per pupil expenditures.

Now I would like to move to an overview of the cap situation as our research and experience has revealed.

The Public School Education Act of 1975 was created in response to a mandate of the New Jersey Supreme Court to provide an equal educational opportunity to all children in the state, and to substantially reduce the state's gross interdistrict disparities in per pupil expenditures. The expenditure cap provision contained in the new act had four goals, one of which was to reduce expenditure disparities. The other three sought to minimize school expenditure increases in general in order to minimize state

aid and ensure that the increase in state aid would result in property tax reductions. Although the court recognized the contradiction between its goal and the legislature's goals, it accepted the provision because it was merely one element of a mandated overall local planning and state evaluation process, and the provision allowed for waivers of the cap when necessary to meet the goals, objectives and standards of a "thorough and efficient" educational system.

However, analyses of the effect of the new act during the first two years of its implementation indicate that whereas the legislative goals have been achieved, there has been virtually no progress, and there may have been regression, in eliminating disparities in per pupil expenditures. The New Jersey experience with expenditure caps has been essentially the same as that of all other states using this mechanism; school cost growth and teacher salary increases are slowed down, but expenditure variation between rich and poor school districts is not reduced.

However, the expenditure cap provision is only one element of a total program and must be examined in that context. From this perspective there is strong evidence to indicate that the expenditure cap provision has become merely one step in a hierarchical series of impediments to the achievement of equal educational opportunity.

The first impediment is the planning process itself. As implemented to date, this process assumes that whatever the district defines as its goals, objectives and standards, will provide the equivalent of a "thorough and efficient" educational system.

District educational decisions are not just determined by what is good for children. Low wealth districts are constrained by high municipal tax rates which tend to lower school tax rates and expenditure levels despite state wealth equalization aid. Urban districts with higher than average municipal expenditures are even more constrained by this problem. As a result, recent research has shown that low wealth and urban districts have put larger proportions of their increased state aid into tax relief rather than school budgets, and therefore pupil expenditures statewide are as highly correlated as ever with property wealth.

District educational decisions are also determined by resident income levels,

interest in public education and basic values. As a result, district goals, objectives, standards, and program offerings vary substantially, and current expenditures per pupil in New Jersey vary within a range of four to one.

The new act, in addition to the local planning process, calls for a state evaluation process; to date, not a single district budget has been rejected by the state for its inadequacy for being too low. While a substantial amount of state resources have gone into the development, implementation and evaluation of the legislative provision to limit expenditures, virtually no effort has gone into the legislative provision which requires the Commissioner to evaluate the adequacy of district budgets.

If a district's administration has successfully completed the "T&E" planning process and its recommendations for an adequate budget have been approved by the local board, its budget decisions are constrained by the expenditure cap itself. The cap fails to recognize cost differentials due to grade level differences, geographic salary level differences or differences in the proportions of students in high cost programs.

If the administration in a low spending district has managed a successful "T&E" planning process, has convinced its board to overlook the past negative voting record of the public, and is determined to provide a substantially improved program and increased budget beyond that permitted by the cap, it must then convince the Commissioner through the cap waiver process, that the recommended program is necessary. This cannot be an easy task if the SDOE takes the view that their fairness is demonstrated by their granting as many waivers to high spending as to low spending districts. The criteria for waiver approval seem very uncertain at least.

Even if a district has convinced the Commissioner through an articulate and reasoned presentation that the district needs a cap waiver to have a "thorough and efficient" system, it may not be able to convince its voters. Of course the board can climb the ladder of impediments to the next level and appeal the voters rejections of their budget to the Commissioner. However, at this point there is no evidence to indicate that the Commissioner would insist on the retention of the higher budget, despite the fact that he has already declared it to be necessary for a "thorough and

efficient" system.

The final impediment in the hierarchy is a legislative self-evaluation process, which allows the legislature to judge its own performance and declare that the system is working effectively. That judgement however is based fundamentally on a set of values which is in direct contradiction to the goals of the court. The legislature has suggested a goal of reducing interdistrict expenditure disparities in five years. By that time they expect 80% of the districts to fall within a range (using current figures) from \$1,285 to \$1,739 per pupil, while the other 20% spend whatever they choose above \$1,739 per pupil. Clearly such a goal serves merely to perpetuate a system which has resulted in huge interdistrict disparities in per pupil expenditures, which are explained not by educational needs, but essentially by differences in district property wealth.

Thank you, and I would gladly respond to any questions which you might want to raise with regard to my presentation.

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